Title: “How Small Accounting Firms Can Compete in an Environment in Which The Big Four Are Getting Bigger”

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Executive Summary

This paper sets out to determine how small accounting firms can compete in the United States in the early 21st century. The first chapter identifies the central goal of the paper: namely, to use existing literature and market data to define a business strategy for Ross & Moncure, Inc., a small accounting firm in the metropolitan Washington area. The second chapter is a literature review, and in it the author finds that large accounting firms are advantaged in terms of reputation, ability to diversify, and ability to retain employees, but are disadvantaged in their ability to form longstanding successful relationships with clients. In the third chapter, the author explores the relationship between the Big Four firms and their employees. The goal of this chapter is to determine how small accounting firms can compete for top talent in the HR market, and the author finds that this can be done by offering faster career progression and more client interaction. The fourth chapter looks at the market for accounting services in the United States, exploring the different options that consumers have to meet their accounting needs. It is found in this chapter that big and small accounting firms tend to compete for clients of different profiles. In the fifth chapter, the author uses proprietary company data to explore the composition, existing strategy and culture of Ross & Moncure. In the sixth chapter, all of the previous chapters come together to formulate a strategy and plan for action for Ross & Moncure: specifically, that the firm should further cultivate networks and relationships, and should create a fulfilling professional environment by increasing client-employee interaction, encouraging external education, and allowing employees to take on many different projects.

1. Introduction

1.1 Goals and Relevance

The challenge of this paper is to determine how small accounting firms can compete in the United States in the early 21st century, an environment in which the Big Four are bigger and more formidable competitors by the day.

This study will be carried out in the context of addressing the strategic needs of Ross & Moncure, Inc., an accounting firm in the metropolitan Washington area with a staff of fifteen. Ross & Moncure, Inc. (hereafter R&M) has no defined strategy, and needs an understanding of its competitors, its customers, and the macro environment in order to create one. A goal of this paper, therefore, is to gather the necessary data to determine the strategy that R&M should pursue in order to compete and to increase its profitability.

The strength of the Big Four in the United States and overseas makes this study particularly relevant. The Big Four in 2014 have incredible resources; between them, they employ more than 714,000 people and earned more than US$113 billion in revenues in 2013 (company annual reports, 2013). Deloitte is present in 150 countries, PwC in 159, EY in 150 and KPMG in 156 (company websites, 2014). The Big Four offer not only traditional services such as audit and tax accounting, but also have expanded to offer advisory services on topics such as corporate finance, valuations, mergers, acquisitions, strategy, operations, human resources and IT control assurance.

There are many other accounting firms in the United States of a similar size and description to R&M that would benefit from this study. There are 89,188 accounting establishments in the United States including sole proprietorships. The average number of employees per accounting establishment is a mere five. There are a total of 49,871 accounting establishments with fewer than 20 employees (55.92% of all accounting establishments nationally), classified as small accounting firms in this study and in others (IBISWorld data at AICPA.org; March 2012 statistics).

The primary objective of this study is to establish an action plan for Ross & Moncure, Inc. going forward that can be generalizable to the nearly 50,000 other small accounting firms in the United States today. The market for accounting services is changing, and small accounting firms in the United States must react and adjust in order to survive and to thrive.

1.2 Methodology

The basis for this study was built using academic papers, market research reports, books on economic history, news articles and opinion pieces. More in-depth research was done via qualitative interviews with professionals in the accounting field. All interviews were done anonymously. The hypotheses presented in this paper were formulated by reading existing theory and research, and were tested using data gleaned in qualitative interviews and quantitative questionnaires.

1.3 Definitions

This paper addresses the present-day market for accounting services in the United States. This market is defined to include the following services:

- Financial accounting
- Management accounting
- Auditing
- Valuations
- Tax advisory
- Tax accounting
- The administration and settling of estates and trusts
- Payroll services
- Bookkeeping

This study will have a particular focus on the market for tax accounting and tax advisory, as this is the market that R&M predominantly occupies. The tax accounting and tax advisory market is defined to include:

- Tax accounting for individuals (preparation of Form 1040)
- Tax accounting for corporations (preparation of Form 1120)
- Tax accounting for partnerships (preparation of Form 1065)
- Tax accounting for non-profit entities (preparation of Form 990)
- Tax advisory (international tax law, tax efficiency strategy, retirement planning)

The tax accounting and tax advisory market is large and growing in the United States. In the case of most individuals (and 98.3% of R&M's clients come to the firm for services relating to individual taxation), federal and state taxes are withheld from their wages, but regardless, individuals are required to file an informational return in the spring of each year to ensure that the tax withheld from wages is actually equivalent to the tax due. Post-filing, the Department of the Treasury will either refund individuals money or require that additional tax be paid on top of what has already been contributed. In recent years, several legislators have suggested that Congress put in place a flat tax that would ease the informational filing requirement for individuals (and therefore largely eliminate the need for R&M's services), but these proposals have never gained any ground.[1] The informational filing requirement for individuals is not only here to stay, but is also likely to grow in scale and scope (post-9/11 and post-Enron).

Tax accounting services are particularly important for those who are not waged employees (business owners or self-employed individuals), and for those who have multiple sources of income (non-employee income or passive income from securities or real estate). In these cases, tax accounting firms replace or build on the services provided by corporate payroll departments, and complete tasks for individuals that would not be jeopardized by the simplification of the US tax code.

2. Literature Review

Large and small professional service firms share characteristics. They cater to clients who are dependent and cannot easily judge the quality of their work versus competitors; they are unusually reliant on a highly educated, powerful and mobile workforce; and, they work with clients who consistently underestimate the amount of knowledge and labor that go into projects (Greenwood, Li, Prakash, & Deephouse, 2005: 661). The list of differences between small and large professional service firms is far longer than the list of similarities: small firms are disadvantaged when compared to their larger counterparts in that they cannot attract clients based on reputation, they cannot diversify to keep their best and brightest employees from leaving, and they do not have the resources to meet the demands of large companies and to expand their business via "product bundling." On the other hand, small firms outperform larger competitors when emphasis is put on longstanding relationships: professional service firms with small teams tend to meet the client's need for trust and camaraderie in a way that large firms cannot.

2.1 Small as disadvantaged

Greenwood, Li, Prakash, & Deephouse (2005) argue that, given that clients rarely understand the content of work done by highly-educated professionals (accountants, lawyers, etc.), the criterion used to select and to stay with a group of professionals is reputation. Large firms with visible brands have an advantage; a small firm, regardless of the quality of its work or the skills of its professionals, will have a harder time to attract clients.

[1] Rick Perry, former Republican Presidential hopeful; Senators Arlen Spector and Richard Shelby; Congressman Dick Armey

Large firms similarly have an advantage in that they can curb employee attrition by diversifying (without sacrificing quality, and therefore without sacrificing revenues per head). Stephen Butler, CEO of KPMG from 1996 to 2002, has stated, "I spent more time than I like to admit in the Silicon Valley and other places like it trying to convince my brightest professionals to stay with KPMG rather than jump to a new economy company rich in stock options…. The best and brightest minds… view auditing firms as a stagnant professional environment" (Butler in Greenwood, Li, Prakash, & Deephouse, 2005: 664). KPMG's solution to this brain drain problem was to expand its scope of services (a solution also adopted by other first and second tier accounting firms), thereby offering bright individuals opportunities to grow and to stay engaged without having to leave the firm. Small firms simply do not have the scale to be able to do this.

Small firms attempt to attract large clients away from the Big Four by forming associations of firms. The United States General Accounting Office (2003) finds that forming associations does not equalize the playing field between small and large firms when it comes to serving multinationals. The study notes:

> [While the] various national practices of any given Big 4 firm are separate and independent legal entities, they often share common resources, support systems, audit procedures, and quality and internal control structures. Market participants said that the affiliates of smaller firms, in contrast, tended to have lower degrees of commonality. Rather than a tight network, they described smaller firms' international affiliations as associations or cooperatives in which there was less sharing of resources and internal control systems" (GAO, 2003: 48).

The same study reports that 98% of public company audits in the United States are carried out by the Big Four, which could be the result of the above, or the result of the fact that choosing a small firm for a major service (notably audit) has been demonstrated to increase a company's cost of capital (Bills, Dreher & Myers, 2014).

Rust and Chung (2006) note that small accounting firms are at a disadvantage when it comes to pricing. Unlike large professional service firms, small firms do not have the service variety to be able to maximize revenues via "service bundling." Guiltinan (1987) demonstrates that firms do best when they are able to concurrently sell both product bundles and their individual components (i.e., mixed bundling) – the result is that the firm is able to both cross-sell and obtain new customers (Guiltinan, 1987 in Rust and Chung, 2006: 565).

2.2 Small as competitive

In a study of the banking industry, Berger, Dick, Goldberg & White (2007) find that large banks do business based on hard quantitative data (credit scores, bankruptcy ratios, etc.), while small banks do business based on personal relationships. The authors note that their findings are in line with the "community banking" theory, which suggests that small institutions have insight into opportunities within their communities that large institutions rule out due to immutable assessment criteria. According to Addams and Davis (1994), these findings also hold in the accounting industry: in a survey of CEOs of privately owned companies, the authors "find that privately owned firms particularly value personal relationships with their auditors, the auditors' responsiveness, their advice, and their understanding of the companies' businesses" (Addams and Davis, 1994 in Louis, 2005: 76). Boone, Brocheler & Carroll (2000) claim, "the services of small audit firms are much more personalized than those of large auditors. In fact, the small-firm auditor frequently becomes the confidant of the small business manager, providing personal advice and information on many issues" (Boone, Brocheler & Carroll, 2000 in Louis, 2005: 76). Looking at the issue from the opposite perspective, Berton (1994) notes that "small clients feel especially shortchanged in the personnel assigned to them [by large accounting firms]. Major accounting firms are shifting small clients among employees so often that the practice is known as 'churn and burn'" (Berton, 1994 in Louis, 2005: 77).

Padgett, Gjerde, Hughes, and Born (2005) find that in the professional services industry, and in public accounting in particular, there is a gap between pre-employment expectations and employee experiences. They argue:

> Employees entering the field of public accounting may be especially vulnerable to developing unrealistically high expectations about their jobs. Public accounting is a traditional port of entry for people working in the field of accounting and thus… individuals have little prior work experience and thus, little basis for developing realistic job expectations. Inflated expectations may also result from the common practice of firms presenting the most positive picture that is possible in order to attract the greatest number of applicants (Wanous, 1980; Wanous, Poland, Premack, & Davis, 1992; Roth & Roth, 1995 in Padgett, Gjerde, Hughes, and Born, 2005: 4).

This expectations gap leads to high turnover, which in turn negatively affects the client experience. Since large firms tend to hire recent graduates while small firms tend to favor experienced hires with more realistic professional expectations, the expectations gap arguably affects large firms more than small firms. The authors find that most accounting firms, regardless of size, are taking steps to close the expectations gap. As of 2000, 73% of firms offered flextime arrangements, 75% offered part-time work, 14% offered job sharing, and 42% offered work-at-home options (Baldiga & Doucet, 2001 in Padgett, Gjerde, Hughes, and Born, 2005: 5). It is worth noting, however, that as of 2014, none of the Big Four firms ranked highly in Fortune's list of the "100 Best Companies to Work For" – Deloitte ranked 61st, PwC ranked 65th, EY ranked 78th, and KPMG ranked 80th. The Big Four were outperformed by other professional service firms such as strategy consulting firm BCG (3rd), and law firms Baker Donelson (31st), Alston & Bird (40th), and Perkins Coie (41st).

2.3 Further considerations

When asked how small and large professional service firms should compete with one another, a knee-jerk answer is to assume that large firms should be governed by consistency in operations, while small firms can and should master delivering relationship-based and customer-centric experiences. Ebben & Johnson (2005) argue that this is not necessarily the case. While the authors maintain that large firms should stick to hierarchies, processes and procedures, they propose that small firms can chose either flexibility or efficiency, but not both. To contextualize, small firms can either have few clients to whom they extensively cater, or have many clients for each of whom they do one thing well. Ebben & Johnson (2005) caution that small firms that choose the latter path should not attempt to offer more than one or two services to clients, as doing so will compromise quality.

3. How Small Accounting Firms Can Compete in the HR Market

Greenwood, Li, Prakash, & Deephouse (2005) argue that the professional services industry, more than any other, is beholden to its people. Each firm is able to produce work only as good as the human resources that it is able to attract. For this reason, in this section, I interview twelve current and former employees of Big Four firms, with the objective of understanding how small accounting firms can effectively compete in the market for human resources (in other words, what would small firms have to offer to attract them away?). Specifically, the goal is to grasp (1) what sort of professionals the Big Four firms attract, (2) what the Big Four firms do to engage and to keep employees, (3) what the Big Four firms are perceived as doing poorly by insiders (from an HR perspective), and (4) what small firms could do better (consequently, making themselves a more desirable professional environment).

3.1 What sort of professionals do the Big Four attract?

In communications with twelve current and former employees of the Big Four, the firms were depicted as, on the positive side, stable, traditional, predictable, willing to invest in employees, and able to deliver opportunities to employees that smaller firms could not. On the negative side, interviewees mentioned bureaucracy, interpersonal politics, being easily replaceable, repetition and excessively narrow job descriptions. Employees stuck with Big Four firms based on their attraction to the positives and tolerance of the negatives.

An employee of Deloitte in Washington describes her employer in a positive light: “In an increasingly unstable world, a large professional services firm is uniquely stable since it is built to adapt.” She adds, “I’m not interested in being a partner at a small firm since small firms seem more vulnerable to going out of business, regulatory pressures, being bought, etc. Big firms can weather storms more easily.” An employee of EY in Skopje feels similarly privileged to work for his employer, but for different reasons: “The greatest advantage of EY is that the company offers an environment in which the learning curve is steep, and this makes for a great beginning to a career.” The employee also mentions that he hopes that he will be afforded the opportunity to work overseas, and mentions that he has few options (“You need to understand that the environment in Macedonia is very different from that of the USA… start-ups do not exist and new firms are usually family-owned… EY provides me with opportunities that I cannot find elsewhere.”).

Employees with negative reactions to the Big Four seem to have more opportunities elsewhere, and little patience for bureaucracy. A former employee at Deloitte in London claims: “Large companies are plagued with bureaucracy and administration that stifles anyone with character or any alternative thought.” Another employee with Deloitte in the same location compares his position to that of his girlfriend: “A negative aspect of the firm is that responsibility grades are quite strictly defined. Alexandra, at her boutique firm, was given responsibility at a much earlier stage.” Two interviewees, one formerly at Deloitte in Lisbon and another formerly at KPMG in London, mention that they were unhappy being “replaceable” and “just one more, with no ability to change things.”

Almost all employees and former employees of the Big Four mention prestige. An employee at Marsh in New York City explains the thinking: “Bigger company, larger prestige in my opinion. I could certainly meet my career goals in a smaller firm, but if I want to be known as a great talent, I want the biggest name to back that up.” A recent defector from Deloitte in London acknowledges the bump that having the company on his CV will provide, and states that he never planned to make a career with the firm in the first place: “Two years was quite long enough and I never planned for more than three to four” (this is in line with a former employee of Deloitte’s claim that everyone arrived to his Washington office “on day one with an exit strategy”). An employee of PwC in Vienna similarly acknowledges that, while he hates his job, he is making valuable connections.

3.2 What do the Big Four firms do to engage and to keep employees?

Big Four employees, whether satisfied or dissatisfied with their employer, acknowledge several positive aspects of their jobs that attracted and kept them there, including: (1) the diversity and scale of clients served, (2) the possibility of having an international career, and (3) the high quality of mentors and colleagues.

An employee of PwC in Vienna cites "the variety of companies you see and the clients you meet" as one of the only positive aspects of his job, and a former employee of Deloitte in London states, "[while I] was typically only responsible for a work stream on a project rather than the whole thing, which was frustrating… what client interaction I did have was typically with large brand name businesses, such as Barclays." A former employee of KPMG in Sao Paolo notes that he felt that he was paid less than he would have been paid at a smaller counterpart in the same city, but put up with the compensation for "the possibility of making an international career" (a possibility that he never utilized). Two employees of Deloitte, one in Lisbon and the other in Washington, praise their employer for hiring "young, clever, ambitious people" and for "[being] picky in clients, employees, and more." The two reported appreciation for mentors and peers.

3.3 What are the Big Four firms doing poorly?

Employees mention room for improvement in several areas relating to their day-to-day lives at their respective companies: (1) internal politics, (2) alignment between promises made during the hiring process and reality, (3) bureaucracy and compliance activities, and (4) work / life balance.

While an employee of Deloitte in Washington claims, "there is a clear and well-traveled path for advancement, which is very valuable," most interviewees were not so convinced. An employee of PwC in Vienna argues, "unless you have a boss (mentor), who has a particular interest in you, it is hard to get the 'right' projects… and nobody takes the time to explain anything to you." A former employee of Deloitte in London maintains, "internal politics account for a large part of reward and advancement. I consistently saw very good people leave because of this." He adds, "theoretically, a firm like Deloitte should be able to provide end-to-end services to companies (cross-selling), but this truly is theoretical – the model could work that way, but there is a lot of internal politics around partner revenues and fiefdoms that gets in the way." A former member of Deloitte's tax group in Washington explains that there is an economic rationale behind noncooperation, at least to a certain degree: "Practices [within large firms] bill other offices in the firm as if the other offices were third parties. The billing rates… may be as high as $1,000 per hour. Partners and managers are evaluated based on the profitability of their engagements, which takes intra-firm billings into account."

There is also some question as to whether the Big Four deliver what they advertise, especially to younger recruits. An employee of PwC in Vienna argues, "the Big Four lure you by stating that you will be able to work in different fields and on different tasks in a challenging environment, and that you will be able to choose what really interests you. The reality is that you are staffed according to your workload, meaning that if you do not have enough projects, you will be staffed on any project so that you generate money for the company."

Bureaucracy is mentioned over and over again as a (perhaps unavoidable) problem at Big Four firms. A former employee at Deloitte in London reveals, "a significant portion of my time was taken up by compliance activities, and this would have increased as I'd climbed the ladder." An employee at Marsh in New York City adds, "while the information [that you want] always exists, accessing it is not as quick and easy as you'd like. You need managerial approval to access a shared drive, and while you can access your own national intranet, you need to request another username to see anything international. And if you want to see what's been invoiced/paid, it's a whole other system." Surprisingly, not a single interviewee mentioned lack of communication as an issue at their firm; in fact, only two respondents mentioned communication at all, and their complaint was that information was too abundant and created noise ("the volume of internal memos is staggering").

Whether or not interviewees were able to balance work and their personal lives varied country-to-country. An employee of EY in Washington with a recently born son said that she was job sharing at the encouragement of her boss, and that she did not feel that this would compromise her ability to return to work and advance as if she had never scaled back. At the other end of the spectrum, three former employees of Deloitte in Lisbon independently stated that they did not feel that they had much control over their schedules while at the firm, which compromised their personal lives and caused them to burn out. Similarly, defectors of Deloitte and KPMG in London and Sao Paolo cited stress and short turnarounds as a reason for leaving.

3.4 What can small firms do better?

Of the twelve Big Four employees interviewed, only half were open to working with a small firm in the same industry. The half uninterested in considering the move assumed that small firms could not offer the same sort of diversity of projects, prestige or compensation. The half willing and eager to consider the prospect stated their reasons to be that small firms (1) could offer faster career progression, (2) are more highly focused, (3) monitor performance more easily, closing the gap between pay and performance, (4) are more willing to put employees on the front lines of projects and client interactions, (5) do not have to adhere to strict corporate governance standards, and (6) have a better ratio of experienced professionals to newcomers.

While the Big Four offer a clear path for progression and make hundreds of people partner each year, several interviewees worried that spending a lifetime with a Big Four firm could lead to stagnation and dead ends. One Deloitte defector stated that he left the firm in search of "better progression prospects." A former KPMG employee stated that he did not have the patience to put in the years required to become a partner there, especially since there were no guarantees. He contextualized, "smaller companies offer the possibility of faster growth than large, and on top of that, they incentivize people to think creatively and to take initiative."

Three interviewees reveal that they wanted to leave or had already left PwC and Deloitte partly because they were forced into work that they had no interest in doing ("Not burn out, bored out"; "the work can start to be very formatted"). These interviewees express excitement at the idea that smaller firms are more specialized, and therefore they could chose a firm that matched their interests and skill set, eliminating the chance of being staffed on random projects that have nothing to do with their area.

One former employee of Deloitte complains that the Big Four firms are so big that it is not possible to understand the quantity and quality of work that each person produces. As a result, bonuses and promotions are as random as a hat draw ("You really need to screw up not to get promoted – your superiors do not consistently pay attention to your work and promote you loosely based on longevity"). He believes that in a smaller firm it would be easier to monitor and to reward employees who work longer hours and who uniquely contribute to projects with fresh ideas.

All six interviewees who expressed an interest in working for a smaller firm cited the desire to have more face-time with clients. A former Deloitte employee who was offered training in "accounting practices, Microsoft Office (mainly Excel and PowerPoint), client interviewing, strategy skills, financial modeling, financial analysis, structured thinking, business writing, hypothesis testing, and scenario development" wrote it all off as "[not] particularly valuable –it's all about the job experiences, and I wasn't getting what I needed on that front." Similarly, a PwC employee said that he did not feel that he was dealing with real people with real issues, but rather doing "monkey work."

A current employee of Deloitte laments that corporate governance and hiring targets ruin much of the mix at Big Four firms. He argues, "What these firms need is a better variety of people. Management seems to think that variety comes down to nationality, race, and sexuality, whereas I believe that there are far more variables. Superficial corporate governance targets prevent these firms from being able to hire people who are genuinely right for the job." Small firms are rarely public, and therefore do not have these same governance pressures.

Three interviewees – one currently and two formerly at Deloitte – mention that the pyramid model of Big Four firms means that offices are "filled with newcomers to the industry rather than with experienced professionals." In a small firm, by contrast, senior professionals are proportionally abundant, and therefore entry-to-midlevel employees have more opportunities to work closely with them and to learn from them.

4. The Market for Accounting Services in the USA

4.1 Evolution

Three major events have determined the direction of the accounting profession in the United States. First, the implementation of the income tax in 1913 made individual tax accounting services necessary. Second, the New York Stock Exchange demanded that companies present audited financial statements before listing beginning in 1933. Third, the government demanded that companies implement management accounting procedures as a response to shortages during the Second World War (Wootten and Wolk, 1992: 13).

Two notable trends have characterized the accounting profession since its origin in the late 19th century. First, diversifying into new service areas came about early and continued over the course of the 20th century. As early as the 1920s, Ernst & Ernst – founded to offer accounting services, and only accounting services – offered business consulting services via a practice area that it called "constructive accounting" (Wootten and Wolk, 1992: 7). Second, since the 1950s, companies have expanded largely by merging, whether cross-border or nationally.

4.2 The Big Four

From the end of the 1950s until 1989, eight Anglo-American professional service firms dominated the accounting profession in the United States (the Big Eight): Arthur Andersen, Arthur Young & Co., Coopers & Lybrand, Ernst & Whinney, Deloitte Haskins & Sells, Peat Marwick Mitchell, Price Waterhouse and Touche Ross. In 1989, the Big Eight became the Big Six when Ernst & Whinney merged with Arthur Young, and Deloitte, Haskins & Sells merged with Touche Ross (Wootten and Wolk, 1992: 16). Not long after, in 1998, Price Waterhouse merged with Coopers & Lybrand, further concentrating the market for accounting services. Finally, in 2002, Arthur Andersen collapsed, and the Big Five became the today's Big Four.

The Big Four dominate the global market for accounting services with a 67% market share (International Accounting Bulletin, 2013 data, measured in terms of revenues). Their collective global revenues were $113.8 billion in 2013 (and $110.2 billion in 2012). Their cumulative worldwide workforce is almost three-quarters of a million people. The firms have a stronghold in some markets; for example, in the United States, the Big Four have a 98% share in the market for large public-company audits (US Government Accountability Office, 2008 data).

Deloitte, EY, PwC and KPMG have far less of a stronghold in the tax accounting and advisory market because they are reputed for being expensive. They are the preferred option for large corporations and extremely high net worth individuals only. A former senior Deloitte employee states, "The company has made a conscious decision not to widely pursue individual tax accounting work. They do not seek to offer the kind of personal attention that sort of work requires." A junior Deloitte employee agrees: "All but the largest of clients are marginalized, and employees are not encouraged to form personal connections." Marshall Geiger, Professor of Accounting at the University of Richmond, argues, "There are hundreds of thousands of companies and individuals that the Big Four (and other large national and international firms) are just not interested in serving" (personal communication, 18 February 2014).

4.3 Tax Preparation Franchises

While the Big Four occupy the highest end of the individual tax accounting and advisory market, tax preparation franchises occupy the lowest. The tax preparation franchises industry (defined to include firms that prepare basic tax returns for individuals and small businesses) has grown an average of 5.7% per year over the past five years, resting at $1.9 billion in 2013 (IBISWorld, 2013 data). The largest firm in the industry is H&R Block, which was the intermediary for nearly 16% of all tax returns filed with the IRS in 2012 (IRS, 2012 data). Block operates 11,000 retail tax offices staffed with 80,000 people in the United States and offers both its own consumer tax software and online tax filing from its website. The company reported that it charged an average of $198 per tax return filed in 2013 (company annual report, 2013). A far second is Liberty Tax, which was the intermediary for nearly 7% of all tax returns filed with the Internal Revenue Service in 2012 (IRS, 2012 data). The company operates roughly 4,400 offices staffed with 30,000 tax preparers in the United States, and like Block, offers software and online filing services. The company reported that it charged an average of $180 per tax return filed in 2013 (company annual report, 2013).

Tax preparation franchises meet the needs of many Americans, but often cannot handle complications such as wealth transfer, international tax issues, tax planning for closely held organizations, multiple sources of income, and property sales. Tax preparation franchises also work in an industry with low margins. While the entire US tax preparation franchises industry was worth $1.9 billion in 2013, Deloitte Tax *alone* had US revenues of $2.5 billion in the same year (Deloitte corporate website, 2014).

4.4 CPA (Certified Public Accountant) / EA (Enrolled Agent) Firms

The principle option for individuals with complications to their financial lives is small-to-medium sized CPA / EA firms. These firms and individuals usually charge less than the Big Four, but far more than tax preparation franchises. CPAs and EAs will often establish strong relationships with clients (personal service), and clients will stick with the same CPA or EA year-after-year. The National Society of Accountants (the largest association for independent practitioners who provide accounting, tax, auditing, financial and estate planning, and management services to individuals and businesses) conducted a fee study in 2013 that revealed that the average price charged by their membership for an individual tax return for a waged employee is $261. These professionals reported charging individuals additional fees on top of the base price of $261 for any financial complexities (see **table 1**).

Table 1. Average Additional Fees for Financial Complexities, 2013

Schedule C (self-employed business income)	$	218.00
Schedule D (capital gains and losses)	$	142.00
Schedule E (rental property income)	$	165.00

Source: National Society of Accountants, 2013 data

The study notes that the fees quoted are based upon the assumption that the taxpayer is well prepared and has all of his or her financial documents organized. In addition, some firms will charge clients additional fees for filing an extension ($44 on average), to expedite a return ($78 on average), and if information is not provided by 15 days prior to the filing deadline ($85 on average). The same CPAs / EAs report even higher fees for partnerships, corporations, and estates and trusts (see **table 2**).

Table 2. Average Fees for Non-Individual Tax Returns, 2013

Form 1065 (partnership)	$ 590.00
Form 1120 (C corporation)	$ 806.00
Form 1120S (S corporation)	$ 761.00
Form 1041 (estate or trust)	$ 497.00
Form 990 (tax exempt organization)	$ 667.00

Source: National Society of Accountants, 2013 data

4.5 The Market Today

According to the Internal Revenue Service, 145 million people filed individual income tax returns in 2012 (roughly 47% of the population). On top of that, approximately 7 million corporate income tax returns were filed, 3.5 million partnership income tax returns, and 1.5 million non-profit organization tax returns (IRS Statistics of Income Bulletin, 2012).

The options these taxpayers have for filing their tax returns – tax preparation franchises, small, medium and large accounting firms – pay their employees very differently. A tax preparer at Liberty Tax makes $8 - $14 per hour (in many cases, just above minimum wage), while a tax analyst at that same company makes between $41,000 and $52,000 per year (glassdoor.com, 2014 data). CPA / EA firms, regardless of size, pay much better. A tax analyst coming into the smallest of firms with no experience would make a minimum of $44,500.00 (see **table 3**).

Table 3. Salary Ranges - Public Tax Accounting Services (2014)

Tax Services - Large Firms	**Low**	**High**
Senior Manager	$ 115,000.00	$ 190,750.00
Manager	$ 92,750.00	$ 134,000.00
Senior	$ 76,250.00	$ 101,750.00
1 to 3 Years	$ 61,500.00	$ 80,750.00
Up to 1 Year	$ 54,250.00	$ 67,750.00
Tax Services - Midsize Firms		
Senior Manager	$ 104,000.00	$ 161,500.00
Manager	$ 86,750.00	$ 117,250.00
Senior	$ 68,750.00	$ 91,750.00
1 to 3 Years	$ 55,500.00	$ 72,750.00
Up to 1 Year	$ 48,000.00	$ 60,500.00
Tax Services - Small Firms		
Senior Manager	$ 92,500.00	$ 131,250.00
Manager	$ 77,000.00	$ 101,750.00
Senior	$ 61,250.00	$ 79,500.00
1 to 3 Years	$ 50,500.00	$ 64,750.00
Up to 1 Year	$ 44,500.00	$ 55,750.00

Source: Robert Half "2014 Salary Guide: Accounting & Finance."

5. Composition, Strategy and Culture of the Firm

5.1 Overview

Ross & Moncure is a boutique public accounting firm with a single office in the town of Alexandria, an upscale residential and commercial area just outside of Washington, DC. The firm was founded in 1943 by Robert Earle Ross to be a generalist United States tax accounting firm with no particular area of specialty. The firm's clients in the 50s, 60s and 70s were locals of Alexandria, and chose the firm based on geographic desirability. The firm was sold to C. Braxton Moncure in 1974, and has maintained its size, but has narrowed its focus. With a staff of only fifteen people in 2014, Ross & Moncure is known throughout the Washington metropolitan area for its specialty in the taxation of multinationals (individuals with an American passport and at least one other), journalists temporarily posted in the United States, and American journalists and diplomats posted overseas. While foreign employees of international organizations located in Washington (the World Bank, the International Finance Corporation, the International Monetary Fund, the Inter-American Development Bank, etc.) are exempt from US taxation, R&M serves many domestic employees of these organizations, and several foreign employees with a US filing requirement due to US-sourced passive income. In short, the firm has made its name based on its knowledge of the 66 bilateral income tax treaties between the United States and other countries.

5.2 Team

R&M's team has fifteen members, six of whom are tax accountants (EAs, or enrolled agents before the Internal Revenue Service). The remaining members are certified public accountants, certified management accountants, lawyers or management professionals (see **table 4**). Five of the fifteen team members do not have backgrounds in accounting, law or business management.

Table 4. Staff Qualifications, January 2014 (Overlap Allowed)

Certified tax accountants (EAs)	6
Certified public accountants (CPAs)	3
Certified management accountants (CMAs)	1
Lawyers (JDs or LLMs)	1
Management professionals (MBAs)	2
Staff with unrelated degrees	5

Of the fifteen team members, two have more than 40 years of experience in the accounting field, two have between 30 and 40 years of experience, two have between 20 and 30 years of experience, and three have between ten and 20 years of experience (see **table 5**). Only six staff members have been working in accounting for fewer than ten years (and of these, only four have been in the field for fewer than five years).

Table 5. Number of Years of Experience in the Accounting Field, January 2014

> 40 years	2
30 – 40 years	2
20 – 30 years	2
10 – 20 years	3
5 – 10 years	2
< 5 years	4

Between the fifteen R&M team members, four languages in addition to English are spoken: Spanish, German, Russian and Slovak (as of January 2014).

5.3 Relationships

R&M maintains close relationships with other entities, including a wealth management firm, a bank, several law firms and various overseas accountancy counterparts. Notable relationships include:

(1) **FBB Capital Partners:** FBB is a boutique wealth management firm with a staff of 16 dispersed throughout three different offices in the metropolitan Washington area (Bethesda, Easton, and McLean). The firm, until recently, was largely staffed by women at all levels of seniority, and was known for its responsiveness and client-centricity (a legacy that continues). The firm today is staffed by ten women and six men, nine of whom are certified financial planners or analysts.

(2) Burke & Herbert Bank: Burke & Herbert is the state of Virginia's oldest bank. The Bank has been owned and operated by members of the Burke and Herbert families since 1852, and owes its success over the last 162 years to its first-name-based customer service and to its conservative approach to banking. The Bank gained notoriety in the Washington area during the financial crisis of 2007, when throngs of Washingtonians withdrew their savings from other financial institutions and deposited them into B&H (as the Bank is known for thriving during bad economic times). Burke & Herbert has $2 billion in assets, 25 branches throughout Northern Virginia, and offers services such as personal banking, business banking, investment management and trust management.

(3) **Trow & Rahal, PC:** Trow & Rahal advises clients on employment-related immigration and compliance issues, such as visas for investors, athletes, and entertainers; and on individual and family immigration matters, such as complex citizenship and naturalization cases. The firm's clients include multi-national corporations, start-up and family businesses, educational and research institutions, trade and non-profit associations, and religious and charitable organizations located throughout the U.S. and around the world. The firm has one office in Washington that houses six attorneys.

(4) **HW Fisher:** HW Fisher & Company is a British chartered accountancy firm aimed at small and medium enterprises (SMEs), large corporates and high-net worth individuals. Founded in 1933, the practice comprises 29 partners and approximately 260 staff supplying a range of services spanning audit, corporate taxation, private client services, VAT, business recovery and forensic accounting, together with a range of sector groups offering specialist industry knowledge. The firm has two offices, one in London and the other in Watford.

5.4 Clients

Ross & Moncure had 2,129 clients on file as of January 2014, before the beginning of the 2013 tax-filing season (the time when nearly all client turnover takes place). Of these clients, 1607 were individuals (75.48%), 390 were corporations or partnerships (18.32%), 97 were estates or trusts (4.56%), and 13 were non-profit entities (0.61%). Of the 2,129 clients, 1520 (71.40%) maintained a primary residence in the greater Washington metropolitan area, showing that – despite the fact that the firm has specialized further and further over the past 70 years due to the changing demographics of Washington – it still serves a predominantly local client base.

Of the firm's 1607 individual clients, 1206 (75.05%) held either a US passport or a Permanent Resident Card (Green Card) at the beginning of 2014. The remaining 401 clients (24.95%) were foreign nationals, and the largest groups were British (120; 29.93% of all international clients), German (82; 20.45% of all international clients), French (32; 7.98% of all international clients), and Australian (28; 6.98% of all international clients). The balance of 139 international clients hailed almost exclusively from other European countries (see **figure 1**).

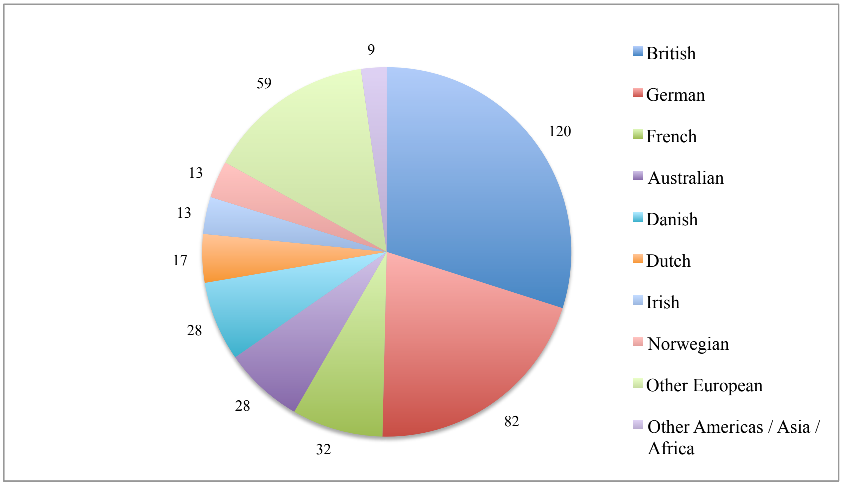

Figure 1. International Clients: Breakdown of Nationalities

The R&M client base is subject to a large proportion of turnover due to the nature of the clientele. Most foreign journalists based in Washington maintain their posts for three to four years, and while R&M's total client base has grown steadily over time, most new clients are simply replacing a former client in a professional post (see **figure 2**).[2]

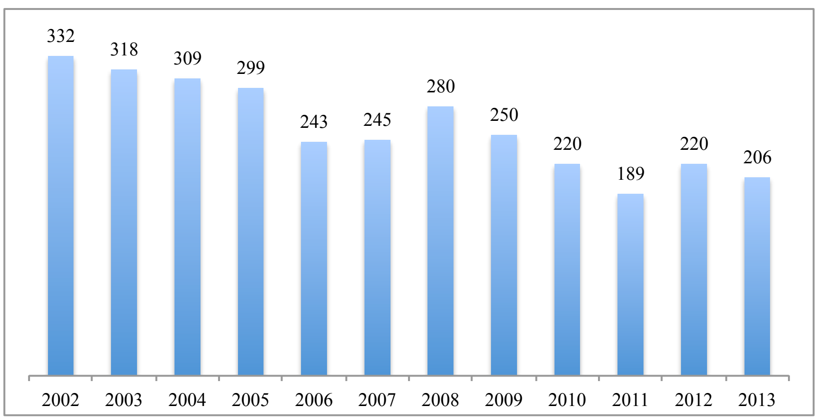

Figure 2. Number of New Individual Clients Per Year, 2002-2013

5.5 Competition

In the Washington area, many other firms and professionals compete in the tax accounting and tax advisory markets. R&M has always believed itself to compete with the Big Four, second-tier accounting firms (Grant Thornton, Dixon Hughes Goodman, Baker Tilly), law firms with tax practices, as well as with small- and mid-sized accounting firms that employ tax

[2] Note that while R&M tracks new client engagements, it does not keep data on how many clients leave the firm per year.

professionals. However, a January 2014 survey of R&M's clients revealed that those surveyed would not – with the exception of two of 299 respondents – choose to work with a Big Four firm if R&M were to cease operations.

Table 6. Responses to the Prompt: "If Ross & Moncure were not an option, I would prefer to work with:"

	Number of Responses	Response Ratio
Deloitte	0	**0.00%**
Pricewaterhouse Coopers	1	**0.33%**
KPMG	0	**0.00%**
Ernst & Young	1	**0.33%**
Other Small DC-Based Accounting Firm	186	**62.21%**
Small NYC-Based Accounting Firm	17	**5.69%**
Small Firm in Other US Geography	21	**7.02%**
Liberty Tax	1	**0.33%**
H&R Block	3	**1.00%**
Self-File	13	**4.35%**
Do Not Know	51	**17.06%**
No Responses	5	**1.67%**
Total	**299**	**100.00%**

There could be several different explanations for the results above (a whopping 74.92% of respondents stated a desire to work with a small accounting firm for tax needs). One possibility is that this survey is preaching to the converted. R&M is a small firm, and perhaps the firm's clients have come to associate the service that they get at R&M with the service that they would get at other small firms (in other words, R&M's small size is the defining characteristic in the eyes of its clients). A second possibility is that, as so many of R&M's clients are foreigners temporarily stationed in Washington who are unsure of their options, they simply defaulted to stating that, in the case that R&M were unavailable, they either would not know what to do (51 respondents), or they would chose a similar firm (186 respondents).

These survey results show that R&M's competition might be of a more specific profile than its firm's members originally thought: other small Washington-based tax-specific firms.

5.6 Company culture

The firm operates on a 1 June to 31 May financial year, and in the 2013-2014 financial year, 49.62% of income was earned in the months February to April, and 62.50% of income was earned during the second half of the financial year. Team members are encouraged to take vacations in the summer and fall, and to limit work hours to 8:30AM to 5:30PM during the slow season, as during the busy winter and spring all employees must work 12-hour days for six days each week (it is optional to come to work on the seventh day, but many employees do regardless as a result of the workload).

Teleworking is not possible, as the firm does not have the infrastructure to facilitate it. Answering a single client question requires delving through many records and multiple databases, which are not accessible remotely.

R&M's office building is open-plan, and employees constantly exchange information and expertise on client issues. Clients are never assigned to a single team member. More often than not, clients will touch base with several different R&M employees throughout the year.

5.7 Business model

R&M does not advertise, and never has. The firm has won clients entirely by referral, and has managed to keep clients by simultaneously specializing and expanding its scope. The firm has specialized highly in certain areas of multinational taxation, and many of its clients view the firm as their only obvious option. The firm has also expanded the services that it provides to several clients, deepening the client-firm relationship. For example, the firm serves as a local address for several clients (individuals and businesses) located outside of the United States, and has mediated mortgages for several high-earning foreign clients who do not have US credit scores and therefore could not under normal circumstances get loans from US banks.

Almost all of the firm's revenues derive from the preparation of tax returns. In the 2013-2014 financial year, 86.67% of revenues derived from tax return preparation, 8.76% of revenues derived from accounting services (payroll, bookkeeping, and administration / compliance), 3.60% of revenues derived from tax advisory engagements, and 0.97% of revenues derived from finance charges assessed on overdue balances.

Clients are not billed hourly. The firm only loosely keeps track of hours worked on each project. Bills are decided upon based on the complexity of the task at hand and the depth of the client-firm relationship. Long-standing and loyal clients are billed at lower rate, as it is assumed that the firm will be engaged for all future tax and accounting work. The firm does not undertake large tasks without retainers, and prices out clients who expect more than they are willing to pay for. R&M does not accept tax- and law-related tasks that are outside of its area of expertise.

5.8 Reviews and client satisfaction

R&M has a 92.86% satisfaction rating as of March 2014. In a survey of 299 clients, 68% stated themselves to be highly satisfied with Ross & Moncure. 98% of clients stated themselves to be neutral to highly satisfied with the firm – only 2% of clients were unhappy with the firm to one degree or another (see **figure 3**).

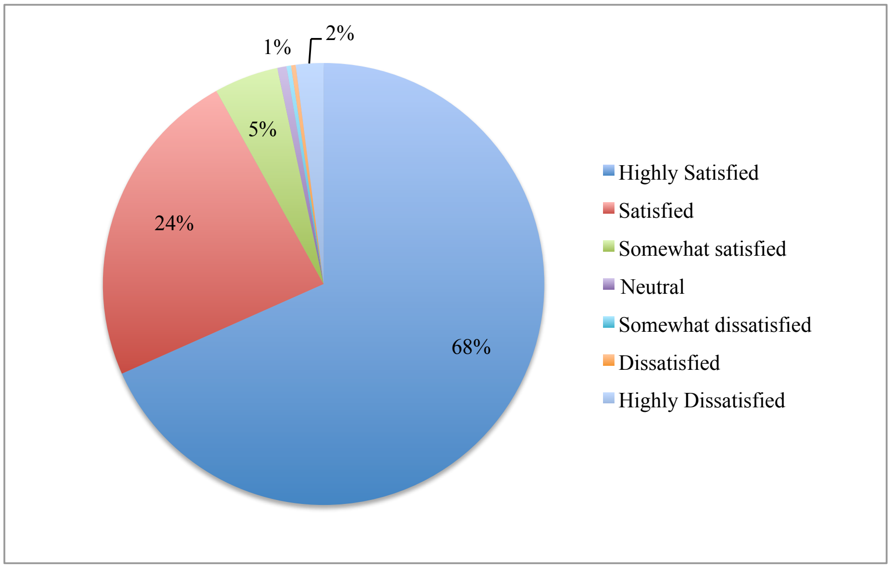

Figure 3. Client Satisfaction, March 2014

According to the survey, R&M's strongest point was that its team members were "helpful and empathetic," and its weakest point was that team members could be "more proactive and [more effectively] anticipate issues."

6. Challenge – What Niche Should Ross & Moncure Fill?

6.1 Findings of this study, and how they can be applied to Ross & Moncure

The primary finding of this study is that the Big Four and R&M (and other accounting firms of a similar size and description) do not – and should not – complete for the same clients and projects. R&M should continue down its path of offering services that first and second tier accounting firms cannot provide successfully and profitably. If R&M seeks to expand its client base, it should target the clients of CPA / EA firms of a similar size that provide a similar range of services.

Three concrete lessons can be taken away from this study: (1) R&M should continue to (and further) cultivate networks and relationships, as they matter greatly in the industry; (2) R&M ought to create a fulfilling environment for employees by (a) giving them as many chances as possible to interact with clients, (b) allowing them to take on many different projects within the firm, and (c) encouraging them to partake in external education programs since there are no internal options; (3) R&M should generally leave large clients alone, and if the firm does take on one or two large organizations, it should only perform one service for them.

This study confirms that relationships and personal connections are of paramount importance in the tax preparation and advisory market. Academic research has shown that clients choose a professional based on their personal connection to that individual, regardless of the size and the reputation of the organization for which the individual works. Establishing a bond and trust keeps the client coming back year-after-year (see **table 7**, lines 2, 5, 8, and 9 – note that line 5, the preference for working with a small accounting firm, implies that the client prefers to work with the same people each year and to form relationships with them). These personal connections not only maintain the client base of CPA / EA firms like R&M, but also help to grow them. In a survey of R&M's clientele, 81.14% of clients polled responded that they chose R&M based on the recommendation of a trusted friend or advisor (see **table 7**, line 1). As predicted, reputation is only cited by 38.72% of clients as a reason for having chosen the firm, a percentage that would be far higher in the case of a bigger firm (see **table 7**, line 3).

Table 7. Responses to the prompt, "I have chosen to work with Ross & Moncure because (please select all that apply):"

1	R&M was recommended to me by a trusted friend/advisor	241	81.14%
2	I prefer to work with the same tax consultant year-after-year and R&M offers me that option	169	56.90%
3	Ross & Moncure has a good reputation	115	38.72%
4	Ross & Moncure has niche knowledge that is relevant to my tax situation	93	31.31%
5	I prefer to work with small accounting firms	83	27.95%
6	I prefer to work with accounting firms that are geographically convenient	54	18.18%
7	Not sure, but happy with service, and therefore have no incentive to change	35	11.78%
8	Knew R&M team member in a different context prior to becoming a client	10	3.37%
9	Family member was using the firm before me (parent, spouse, etc.)	5	1.68%
10	Ross & Moncure is cheaper than its competitors	4	1.35%
11	Not sure	1	0.34%
	Total Respondents	**297**	

Relationships are additionally important in that they (could further) enable R&M to provide top-notch service to clients. While R&M should not seek to attract large clients by joining a network of accounting firms that work together and share knowledge, the firm should seek to form relationships with as many firms as possible that could provide complementary services to R&M's existing client base. For example, given the firm's focus on individuals and international tax issues, it would be wise to establish a network of tax professionals in other countries, and to form relationships with more immigration law firms in addition to Trow & Rahal, PC.

Key to R&M's success is living up to employees' expectations of the advantages of working for a small firm. Former employees of the Big Four mention above that they would be interested in working for a small firm because of the inherent truths that small firms (1) are more focused, (2) allow for closer relationships between experienced professionals and new hires, and (3) do not have to adhere to endless processes, procedures and standards. In addition, former Big Four employees mention that they would be interested in (4) faster career progression (i.e. more control over projects sooner; more responsibility), (5) more client interaction, and (6) fairer performance assessments (i.e. bonuses that are based on skills and effort, not merely on longevity). Points (4) and (5) are delivered at R&M because the firm, at many times of the year, needs all hands on deck to meet deadlines. Quite frequently, employees are called upon to complete a task that is new to them because there is no one else to do it. While no professional environment is perfect when it comes to matching work with rewards, R&M is positioned to close the pay / performance gap as its office is open plan, and as employees interact often with one another and therefore come to understand the speed and quality of one another's work.

In addition to living up to the supposed advantages of working for a small firm, R&M must mitigate the disadvantages of working for a small firm. As the firm does not have the resources to provide in-house training, it should develop a plan for training employees externally. This would entail having a budget for online and night courses for employees, as well as, in some circumstances, arranging flexible schedules around courses. In addition, R&M needs to have a plan for turnover. Marshall Geiger, Professor of Accounting at the University of Richmond, highlights the fact that "all firms [should] expect turnover. There are just too many good opportunities that cross people's career paths not to expect some level of turnover" (personal communication, 18 February 2014). This plan must entail always having at least two people with the same skill set to prevent knowledge loss, which in a small firm is not an easy feat.

The third lesson above does not need much explanation: R&M does not have the in-house expertise to be able to handle large projects for large organizations. The firm could not handle audits, nor could it manage the tax reporting and tax strategy for a large corporation. A firm the size of R&M should stick to tax preparation and consulting for individuals and for small-to-medium-sized organizations. Similarly, R&M should not be tempted to provide many services beyond tax. It does not have the manpower to be able to divert human resources from its main purpose, which is tax advisory for individuals and closely held corporations.

6.2 Strategy going forward / concrete plan for action

Going forward, R&M should **target** the following clients:

- Non-US nationals living in Washington
- Non-US nationals living in another US geography
- US nationals with at least one other passport living in Washington
- US nationals with at least one other passport living in another US geography
- US nationals living overseas
- US nationals with complex tax needs

While R&M has done well thus far to attract clients that fit into categories (1) and (3) above, there is room for growth in categories (2), (4), (5), and (6), as the firm has not attempted to tap the market outside of Washington, and as the supply of US nationals living overseas and with convoluted tax situations is seemingly endless. The characteristic common to all desired clients is that they are dependent on R&M for the firm's professional knowledge (international clients who do not understand the US tax system, and US clients who are hands-off when it comes to their finances and outsource all of their financial affairs to the firm).

R&M should keep its **service offering** relatively constant. The firm should not seek to expand on this front, but rather should offer its existing services to more customers (in other words, R&M should remain a niche firm). The firm should maintain its focus on taxation for individuals, with a specialty in international, self-employment, retirement, and fiduciary issues.

R&M's **go-to-market model** should be based on relationships. The firm should create a network of tax professionals that would serve as both a resource for knowledge, but also as a source of referrals. Currently, R&M has partnerships with professionals in the UK and in Germany, but the firm should form partnerships in (a) France, (b) Spain, (c) Australia, (d) Canada, (e) Denmark (f) Ireland, and (g) the Netherlands. R&M should choose partners by asking existing international clients for tax advisor recommendations in their home cities. R&M would be able to refer clients to partner firms, and in exchange would receive referrals.

Beyond this network of international counterparts, R&M should seek out partnerships with immigration lawyers and wealth managers in other US geographies. While the firm has been able to heavily saturate the Washington market for international individual taxation services, it needs an entrée into similar markets in other US cities, such as New York City, Boston, Philadelphia, Chicago, San Francisco, Los Angeles, Houston, and Miami. While some individuals prefer to work with a tax advisor who is geographically desirable, many prioritize niche knowledge and a good working relationship over location – hence the reason that R&M could (and should try to) make inroads into other US markets.

R&M currently has a referrals program, but the credit for "referring a friend" is so small in proportion to bill amounts that it does not serve as much of a motivation. The firm should consider moving from a credit loyalty model to a reward loyalty model. In the case that a client "refers a friend" (and that friend actually completes the process of engaging the firm's services) the client should receive a tangible good, such as a theater ticket or a certificate for a dinner at a nice restaurant.

R&M needs to create a template for how to present its services (understood and memorized by all administrative staff), given that it charges above market rates when compared to other CPA / EA firms (determined to be the competition), and new clients often do not understand why. This template should emphasize the following characteristics:

- R&M does not charge for filing extensions or for expediting returns
- R&M takes full responsibility for the returns that it prepares, and clients can contact the firm with IRS or personal queries regarding these returns at will
- R&M charges premium rates for clients wanting to fulfill their filing requirements during the period February 1st – April 15th, but offers lower rates to clients willing to file in the summer and fall
- R&M charges below market rates for tax consultations outside of tax season for current clients
- For less complex issues, R&M does not charge the client for costs incurred as a result of seeking external advice (i.e. UK tax lawyers, US immigration lawyers)
- R&M will generate accountant's letters and liaise with third-parties on behalf of the client at no charge
- R&M will represent clients in the case of an audit, provided that a suitable hourly compensation arrangement can be agreed upon

Given the nature of the firm's business, traditional marketing activities are not needed. In fact, the firm would do best to use its resources to **build capacity** (improve performance by investing in people and technology, thereby making referrals more likely) rather than to create catchy campaigns. Investing in people would entail creating a plan for external training based on the firm's available budget and the skill set and desires of each employee – employees should not feel pressured to undergo training, but should know that it is available if and when desired. Available training programs should include:

- Microsoft Office (Excel, PowerPoint)
- Business writing
- Tax law (continuing legal education)
- Tax software
- Tax preparation (continuing professional education)
- Bookkeeping (QuickBooks)
- Customer service / relations / communication

R&M should similarly build capacity and prepare for inevitable turnover by ensuring that at least two people at the firm have each relevant set of skills. If not, then this should be rectified by one employee shadowing another or by external training programs

The firm could increase profitability (without having to expand the number of services offered or to actively seek out new clients) by developing a plan to even out the firm's annual workload. This would entail developing a strategy to handle new-client requests in March and the first half of April. Currently, R&M turns away new clients seeking tax advice during these weeks. The firm should be able to defer these paid engagements, thereby meeting the needs of new clients without overextending the firm. Evening out workload could also entail drumming up business in the areas of one-off tax consultations, payroll, bookkeeping, and administration & compliance. These areas are not February to April intensive, and combined they currently make up a mere 12.36% of revenues, which could be an opportunity.

6.3 Study limitations / areas for further research

A limitation of this study is that, in assessing how R&M can compete in the HR market, only twelve professionals were interviewed. And, throughout the course of interviews, those unhappy with their experience working with one of the Big Four firms were highly vociferous, while those pleased with their experience had far less to contribute.

This study does not clearly address the issue of Ross & Moncure's pricing. Pricing for accounting services in the United States varies by firm specialty, level of experience of the accountant, and geography. An extensive study on pricing given the location, profile and niche of Ross & Moncure is needed given that pricing is currently done in a vague way, and standardization would be beneficial.

In a further study, it would be helpful to more clearly define the competition of Ross & Moncure (as, in this study, it has been determined that Big Four firms are largely not the competition). While not easy to determine, it would be helpful to understand exactly how many firms of a similar size and niche exist in major metropolitan areas that are relevant for Ross & Moncure (Washington, New York, Philadelphia, Baltimore, Boston, Chicago, Los Angeles, San Francisco).

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